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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 001121

SIPDIS

DEPT FOR NEA/ARP ANDREW MACDONALD AND
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DEPT OF THE TREASURY FOR SAMANTHA VINOGRAD AND JOANNA VELTRI
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TAGS: [ECON](#) [EINV](#) [EPET](#) [ENRG](#) [YM](#)
SUBJECT: TRIBAL CONFRONTATIONS, ROYG HEADACHES CAUSE
OCCIDENTAL PETROLEUM TO MULL YEMEN PULL-OUT

REF: A. SANAA 1064
[B.](#) SANAA 227

Classified By: Ambassador Stephen A. Seche for reasons 1.4(b) and (d).

[¶](#)1. (C) SUMMARY: Occidental Petroleum (Oxy), whose exploration and production operations in Shebwa and Jawf governorates are under siege by increasingly brazen tribal attacks, is considering pulling out of Yemen. The two factors that will influence Oxy's final decision to stay or leave are relations with local tribes and the fate of stalled negotiations with the ROYG over a Gas-Sharing Agreement that would allow Oxy to exploit natural gas reserves in its oil concession blocks. Absent an improvement in the security situation in the tribal areas and more generous gas-sharing terms from the ROYG, Oxy will leave Yemen, according to General Manager Donald Lipinski. Oxy's threatened departure highlights the ROYG's lack of authority over the tribes in the oil-producing governorates, making exploration activities not merely risky, but sometimes impossible. END SUMMARY.

TRIBAL CONFRONTATIONS HINDER OIL EXPLORATION

[¶](#)2. (C) Occidental Petroleum is considering ending its oil exploration and production operations in Yemen due to increasingly violent confrontations with local tribesmen and stalled negotiations with the ROYG over a Gas-Sharing Agreement (GSA), Oxy General Manager Donald Lipinski told EconOff on June 15. Oxy, one of the two remaining U.S. oil companies in Yemen (the other is Hunt Oil), began operating in Yemen in 1989 and currently produces 28 MMBL (thousand barrels per day) in oil concession blocks S-1 and 75, roughly 10 per cent of Yemen's total daily production. As production rates in Oxy's blocks dwindle, the company has sought to undertake expensive 3-D seismic imaging of unexplored territory to pave the way for future exploration activities. Tribesmen in the Shebwa and Jawf governorates, however, have repeatedly prevented Oxy-contracted teams from conducting such geological survey work on their land, by blocking roads, firing weapons at team members, and seizing Oxy vehicles. Three Oxy-contracted seismic imagery team members were killed in 2007 and three more were injured in February 2009, despite a ROYG security escort and a Ministry of Oil permit to operate in the area.

[¶](#)3. (C) The ROYG has only exacerbated the problem by lavishing tribal leaders in Shebwa and Jawf with new SUV's and cash payments in exchange for granting Oxy contractors brief access to their land for seismic shoots, according to Oxy Deputy GM Aruna Ratnayake. The ROYG attempt to appease the tribes has only emboldened them in the past year, resulting

in small groups of armed tribesmen approaching the main gate of Oxy's facility in Shebwa and demanding jobs. In the majority of cases, Oxy has given in to the tribes' demands, offering them "ghost worker" positions that list local residents on the payroll but do not require them to actually show up to work. "What are we going to do? They'll just shoot one of our guys if they don't get what they want," Lipinski told EconOff. (Note: The Yemen Liquefied Natural Gas Company (YLNG) has also had to adopt the "ghost worker" practice in tribal areas along its 320-km natural gas pipeline route from Marib to the coast. End Note.)

GAS AGREEMENT NEGOTIATIONS WITH ROYG DRAG ON

¶4. (C) Finding a profitable way to exploit the natural gas in Oxy's two concession blocks, totaling one TCF (trillion cubic feet), is the only way Oxy will stay in Yemen, according to Lipinski. The natural gas in block S-1 and 75, some of which is currently re-injected into oil wells to enhance crude oil recovery (REF A), does not fall under Oxy's existing Production-Sharing Agreement with the ROYG. In order to monetize the gas, Oxy must negotiate a GSA with the ROYG. So far, however, the ROYG's proposed GSA terms, which include 40 per cent royalties and a USD 20 million signing bonus, would prevent any gas recovery from being commercially viable, according to Lipinski. Criticism of the ROYG's unbending GSA negotiating stance extends to members of the ROYG itself. Ministry of Oil Gas Division Manager Ibrahim Abulohoum criticized his own Ministry regarding the Oxy GSA, telling EconOff on June 5 that the Ministry's terms would scare off Oxy and other potential natural gas investors. Deputy

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Finance Minister Jalal Yaqoub, rumored to be in the running for the Oil Minister slot in the event of a cabinet reshuffle, derided the Oil Ministry as corrupt, incompetent, and unable to appreciate the longer-term benefits of maintaining good relations with the major oil and gas companies in Yemen, during a June 4 meeting with EconOff.

COMMENT

¶5. (C) Any net oil production loss resulting from the departure of Occidental Petroleum from Yemen might be fiscally inconsequential, but would send a strong negative signal to the very oil companies that the ROYG is trying to woo with promises of favorable Production- and Gas-Sharing Agreement terms (REF B). Other oil companies in Yemen, including Hunt, echo Oxy's claims of being unable to expand operations beyond existing sites because of tribal confrontations. Increasingly, the lack of ROYG authority over the tribes in the oil-producing governorates of Marib, Jawf, and Shebwa is making new exploration not merely risky, but sometimes impossible. By its own admission, the ROYG's only hope for monetizing its modest oil and gas reserves is to attract major companies with the resources to undertake expensive geological surveys, drill offshore and in remote areas onshore, and build pipelines across treacherous tribal territory. The departure of Oxy, the U.S.'s fourth largest oil exploration and production company, would make this goal even more distant. END COMMENT.

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